

# Technical Notes

NATIONAL SOCIETY FOR BUSINESS BUDGETING •

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## EDITORIAL COMMENTS

This issue of Technical Notes contains articles by two men whose contribution to the success of the National Society of Business Budgeting as a truly national organization can never be fully appreciated except possibly by the relatively few of us who were local charter members about five years ago.

Mr. Walter Bunge of the Allis-Chalmers Manufacturing Company of Milwaukee, Wisconsin and National president of the N.S.B.B. during the 1951-1952 year is author of the article entitled, "Budgets and People," which is an excellent reply to an article in the January-February 1953 issue of the Harvard Business Review entitled, "Human Problems with Budgets."

Mr. W. J. Edmonds of the Standard Oil Company (N.J.) of New York and our National president of the N.S.B.B. for the 1952-1953 year is the author of the excellent article entitled, "Outline of Industrial Planning."

We have been receiving questions for our "Question Box" and the membership has been very cooperative in framing replies that might be helpful. Our practice has been to send these answers directly to those who have submitted the questions so that they may receive prompt answers. The question box has been omitted in this issue in order to publish completely the two excellent articles by Mr. Bunge and Mr. Edmonds. We, therefore, urge the membership to continue to submit their questions to Technical Notes and we will do our best to furnish prompt replies. As a general rule, we hope to publish some of the questions and answers regularly in Technical Notes. At present we have some good material which will be printed in future issues of Technical Notes which has been prepared by Mr. D. L. Cartland of the Chicago Chapter and Lee Miller of the Milwaukee Chapter.

Your editor wants to take this opportunity to acknowledge and to express his personal appreciation of the excellent work done by Larry Moser of the Twin Cities Chapter with the April issue of Technical Notes and to Richard Yount of the New York Chapter for his services in producing the March issue of Technical Notes.

It is hoped that the members and readers of Technical Notes will retain a file of all issues as we believe such files will eventually be an excellent source of valuable information on budgeting and related subjects. While your editor has no illusions as to the excellency of Technical Notes per se, we as members of N.S.B.B. can be justly proud of many of the articles prepared by our own members and published in Technical Notes.

It would be greatly appreciated by the N.S.B.B. and especially by your editor if all the readers of Technical Notes would let me know if they are retaining a file of Technical Notes -- a post card will do.

BUDGETS AND PEOPLE

The Impact of Budgets is on Problems - Not People  
by  
Walter R. Bunge

The January-February 1953 issue of the Harvard Business Review contained an article entitled "Human Problems with Budgets." For those who know budgeting, this is indeed an arresting title. I have always thought that the properly administered budget helps to solve some of the human problems in industry, but, listen to the sub-title as it appears in that article: "The necessity for constantly increasing efficiency is a basic fact of business life. Budgets are utilized as a pressure device for that purpose. But, because of the effect of budgets on people they tend to generate forces which in the long run decrease efficiency."

This is something new; new at least to the current generation of budget officials as represented by the National Society for Business Budgeting. Could it be that a generation or so ago when business men, rugged individualists that they were, conceived the idea that a goal, or a well nigh impossible objective, could be called a budget and could then be used as a pressure device, a needling instrument, or a club? Such a program could conceivably have been devised by the "Gay Nineties" type of business man or perhaps by the overly paternalistic industrialist who, fearful that his paternalism might, after all, result in unwarranted laziness on the part of his subjects, attempted to forestall this anticipated result by a scheme which he imagined to be a system of checks and balances to offset the devious devices of the governed and which he then called by the euphonious term of Budgeting.

This article is a condensation of a booklet prepared by the same author, Mr. Chris Argyris, and entitled "The Impact of Budgets on People." This was prepared for and published by the Controllership Foundation Incorporated. The contents of that book and the article which stemmed from it, are enough to make the hair of a good business man or a good psychologist stand on end. In fairness to the author and sponsor, it should be pointed out that they do not approve the methods and conditions they report, and they also offer suggestions. It is unfortunate, however, that the impression is created that budgeting in industry is as therein described.

It is hard to believe that what the article calls "The Budget People" are aligned on one side, rigid, arrogant, and biased, opposed to and opposed by an equally rigid, arrogant and lazy group represented by the workers and supervisors in every other department. This survey would have us believe that this is quite literally true, and implies that the condition is rather general, a natural consequence of budgets.

The survey was based upon interviews of operating and financial supervisors of four plants, not one of which had more than 1,500 employees. Three of the four plants are branches of parent organizations, and the plants are located in relatively small towns. It is extremely unfortunate that such a poor sampling of American industry, representing what would certainly seem to be the most misguided budgeting techniques in use today, could form the basis of a report which purports to be budgeting as it is practiced in American industry. The very inference of the title is completely contrary to the very happy relationship which budgeting enjoys in several hundred of the leading companies of this country, which are members of the National Society for Business Budgeting.

In almost every human endeavor there are leaders; there is a large area of those who get along well if not spectacularly, and there are a few whose distinction lies in

their distortion of the very principles and devices which are incorporated so successfully by the vast majority. The amazing thing about this study is that the entire sampling - four companies - apparently lies in the latter minority group. The description of budgeting, its principles, its methods of operation and its techniques, has a flavor which is very reminiscent of Soviet Russia's description of capitalism as it operates in the United States. Russia has surrounded herself with an iron curtain, excluding from herself the influence of successful practical operating capitalism, and then proceeds to describe her version of capitalism and the evils she imagines exists in a system which she will not try.

What is a company trying to achieve when it installs a budget? There are a number of objectives of a good modern budget program. Among these, perhaps the most important are the following:

- 1 - To induce everyone who has responsibility for spending the company's money to carefully plan the best, most effective utilization of those funds. This involves the efficient use of personnel, material and machines, and it includes foremen, department heads, managers and the very highest executive personnel.
- 2 - To provide the means of co-ordinating the plans of the divergent phases of a company to develop a more smoothly working organization.
- 3 - To provide a basis of approved plans rather than past history with which to compare the actual operating results.
- 4 - To provide a realistic and reliable means of forecasting profits, financial position, cash requirements and so forth.

It is not the purpose of this article to explain in detail the technical procedures used in operating a budget. It will be helpful, however, to explain the basic principles which underlie those procedures. Those principles are used in establishing every budget throughout the organization, but the principles can be illustrated by describing the round table type of discussion at which the budget of a manufacturing department is established.

It should be remembered that the objective is always to obtain the most realistic estimate possible of the operating conditions and operating costs of every department. The person most familiar with the department and best able to estimate its needs is the foreman or department head himself. Since his background information is in his own office, and since he feels most at ease in his own locale of operations, the budget establishment meetings are held in the foreman's office. He may want the assistance of a clerk, an assistant foreman or someone else, and if he does, he needs but to ask them. The result will be a better budget. In addition to the foreman and any assistants he may want, his own immediate superior, probably the superintendent, is present and also a representative of the works manager. The fourth official member of the group is a representative of the budget department. This group reviews the current trend of expenditures, the prospects for volume for the future, the effect of such volume on both direct and indirect personnel, overtime, supplies, defective costs, training costs and so on.

In the atmosphere of a friendly discussion, the foreman gradually evaluates all of his needs in the form of a tentative budget. The budget department representative is there to answer any questions on procedures, accounting or policies, and generally guides the participants over the rough spots. He and the foreman both have copies of the department's recent statements showing previous experience and he supplies information on general company plans as to volume, wage rates and other matters which will affect the foreman's budget.

The superintendent and particularly the representative of general manufacturing will be able to contribute information on plans for expansions or changes in facilities and equipment in the department which may affect operating costs but which plans may not yet have been announced. The effect on the department of plans in another department, such as the one which performs the preceding operation, will be discussed. This is also frequently an opportunity which the foreman seizes to explain and discuss difficulties he has encountered because of his inability to get supplies when he wants them, or his dissatisfaction with specific shop procedures which he feels somewhat hamper his operations.

It is obvious that there is no attempt on the part of the budget department to "brow-beat" the operating departments. The emphasis is on co-operative development of the best operating plans for the company as a whole. In these meetings the budget man is outnumbered at least three to one and the shop personnel are on their home grounds. Every attempt is made by the budget department to select as a representative, a person who appreciates the viewpoint of the shop and who has had experience in working out problems with various shop departments. He acts as a technical advisor and helps the shop people in the somewhat unfamiliar task of getting their plans down on paper where they can get a good look at them. The budget man is also familiar with accounting procedures and policies and the inter-relationship of the various departments and the affect of all these things on the costs of the department that is being budgeted. He realizes that it is not any easier for the employee of the manufacturing department to grasp the intricacies of the budget than it is for the budget man to understand all of the workings of one of the foreman's highly complicated machines. In discussing problems with the various departments, the language and terminologies of the department involved are used as much as possible.

It is understood by all that these budgets are still tentative, as are the budgets made by other managers, administrative as well as manufacturing, until the final combined budget of the entire company indicates that a satisfactory operating arrangement has been achieved. The tentative departmental budgets are then assembled by the budget department according to the organization scheme of the company, and are reviewed with the respective executives. If it seems necessary to make any changes, those changes are discussed and fully explained to the foreman or other department head involved. They will constitute changes in his basic plan of operations for the year.

Ultimately the budget is completed and everyone has a copy of the budget or budget formula applicable to his own department. As the year progresses, periodic reports, usually weekly or monthly, are prepared showing a comparison of the planned operations at the level achieved (as indicated by the budget) with the actual operations. Any major deviations between these two sets of figures will be highlighted.

Since the foreman has his own budget formula he can compute, ahead of time, what his budget allowance will be at the level at which he is operating. He also signs all the requisitions or otherwise initiates his own expenditures. He is therefore in a position to explain major deviations. To assist him in this, the accounting department provides him with any detailed information he needs in regard to the expenses in any account.

This accountability, which is the essential concomitant of responsibility, is anticipated. For that reason the foreman very frequently calls upon the budget department for help in analyzing the reasons for a disturbing trend in expenses which seems to be developing and which is indicated in his periodical departmental statements. The budget department also is alert to discover developing trends in any department.

The budget department then immediately works with the foreman and his department in tracking down the reason for the increase in cost and gives him any help it can to relieve the situation. Such help might consist of discussion of a similar problem in another department and the way it was solved, or might involve calling in some specialist such as the industrial engineering department or staff people within the manufacturing organization. The point that is stressed is that the budget department is assisting the foreman to improve his operations and to make a good showing for himself. The budget department remains in the background; the credit for achievement goes to the foreman and to the manufacturing department or to the sales or engineering or administrative department if that is where the assistance has been given. It would be extremely shortsighted and fatal, and I might add just a bit juvenile, for the budget department to run gleefully to top management with each of the many little irregularities it finds. The effect would be precisely the opposite of that desired. It is scarcely conceivable that this is the procedure reported in Mr. Argyris's paper, and yet it is so. That is neither good budgeting nor good management; nor for that matter is it good psychology.

Let it not be thought that the described method of handling the budgetary control phase of management is in any sense a favored "Spoiled Child" treatment of a situation. Work on the budget is a difficult, exacting, but satisfying task. All of the concentrated planning which goes into that relatively short period of establishment bears fruit in the freedom from planning worries which would otherwise tend to crop up at frequent intervals throughout the year. Top management and foremen as well are both happily confident that a definite plan has been established and will be followed except if conditions drastically change, which situation will be apparent. The follow-up work helps keep operations according to approved plans.

The budget has also provided a very useful means of communication from lower operating to higher executive management levels which does not otherwise exist. This is highly important for the efficiency of any company. Many a foreman has been so frustrated by his inability to channel his ideas directly up the line of management that he has given up in disgust any attempt at efficiency.

All of this does not mean that the budget department avoids direct communication with top management officials. This is also an important budget function, but it consists largely in reporting the trend of company operations, in reporting areas which require attention and the reasons therefore, and in adjusting forecasts of profit and loss and balance sheet statements in the light of any changed conditions which may exist. It is not management's duty to be constantly concerned about the detailed operations and minor pitfalls of the multitudinous areas within the company. This would leave management no time for its important task of top level administration. Top management looks at the whole picture and it is the whole picture which is interpreted for them. Any detail within any department can readily be explained, but such requests are rare and usually a part of specialized studies. Down the level of management, each successive group receives more and more detailed information as it is concerned more and more directly with the detailed operations. At every level throughout the entire organization an attempt is made to find and correct discrepancies and inefficiencies and let the department itself actually make the correction and take the credit for it. In this way everyone operating under the budget is thankful for the budget; for not only is it a help in operating efficiently which everyone really wants to do, but it is also a means of proving to superiors that efficiency has been maintained and is being improved. This is an automatic result of the budget statements.

If difficult operating conditions develop and it becomes impossible to live within the budget, the budget itself becomes an excellent proof of those conditions and helps a foreman to obtain management approval for new equipment, changes in procedure or whatever else is necessary to restore or improve efficiency. It should be remembered that by the time this point is reached it is quite likely that the problem will have been studied and the foreman will have expert backing for his arguments.

The principles described above are in general use with suitable local variations in a great many of this country's progressive firms. Many of them are members of the National Society for Business Budgeting and discuss these and related problems and techniques at meetings of the organization. Better and better methods are being developed and they always tend to go more and more toward cooperative work with informed and interested foremen and department heads who are treated as what they are: a portion of the management team.

I have used a definition of budgeting and budgetary control in a number of talks. A copy of this definition has often been requested because it so exactly describes the spirit and the work of budgeting. Here it is: "A budget is a written coordinated plan of operations of an enterprise expressed in money values, both its income and expenditures, and the resulting effect on profits and the financial condition. Budgetary Control involves a continuing cooperative effort to administer the affairs of the enterprise so that the planned objectives are achieved if possible, or that the necessary alternative measures represent the considered and enlightened best judgment under the new circumstances."

Budgeting is actually a phase of management in operation. Let us then encourage wise management and not impute the foibles of isolated instances of foolish mismanagement to budgeting or to any other generic group. Rather, let us recognize these as variants, examples of misguided humanity and not the basis from which to draw conclusions which may hurt some of the oldest principles of good management. The general principles of budgeting were used at least since the time of Joseph, since that is the oldest recorded instance of its use. Surely we have progressed since 1500 B.C. Our well managed companies are ample and cogent proof of this.

\* \* \* \* \*

#### OUTLINE OF INDUSTRIAL PLANNING

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It is the purpose of this paper to describe planning in an industrial corporation and integration of planning with the whole job of management, including budgeting. Testing through economic and financial analyses and integration by financial planning is the keynote of the discussion. The financial plan is a means of bringing all plans into focus in order to provide a basis for fundamental decisions.

##### What is Planning?

Management of an industrial enterprise requires planning, decision, action, and control. These result in the development, conservation and utilization of the basic forces of production of (1) scientific and technical knowledge, (2) manpower, and (3) capital in the supply of desirable goods and services. The success of industrial

management is to be found in the industrial products, whether they be useful and desired commodities or services for the consumer, or by-products of social benefit achieved through additions to the general funds of scientific knowledge, productivity or capital. What is desired is not just immediate "dollar profits" but sound growth and development for the future.

Planning for business means thinking ahead; thinking about the problems of one's company and its customers, about the particular plans and projects under consideration and about the broader economic problems. Planning is a means of exercising foresight which, though limited, is worth the effort.

Industrial planning is a long-range process shaped through day-by-day decisions of management. While industrial plans cannot be set up in the form of a timetable, the various plans that are made in a corporation must be coordinated and integrated with due consideration to the lag between planning and accomplishment. The attached chart indicates a generalized approach to the planning around each of the principal factors. The objectives of each planning activity and the connection between the long-range planning, current programs and control measures is indicated. The discussion which follows is outlined by this chart.

#### Corporate Planning

Planning begins with the corporate entity -- its reputation or social acceptance and its structure and management. In a discussion of planning for an existing corporation, these topics can be dealt with only very briefly.

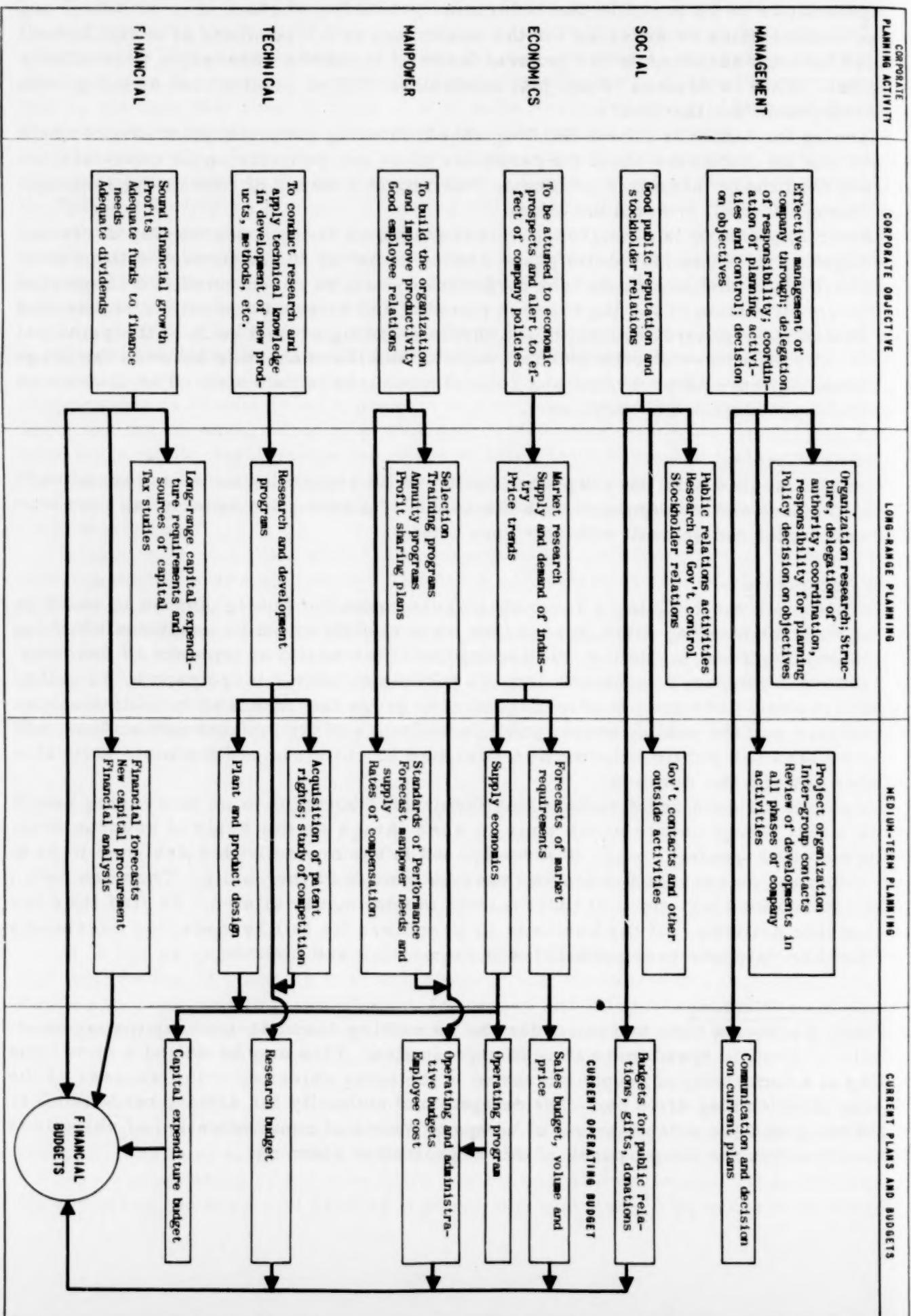
#### Social Acceptance

Earning and maintaining a favorable environment of public opinion in which to operate requires planning with respect to the many aspects of public relations affecting the company itself and, in addition, the assumption of the social acceptance of business. For example, a company's reputation with the public may play a large part in its ability to obtain capital. It is the job of management to gauge the impact of its policies upon stockholders and the public, to test public acceptance of its policies and actions, and to make plans for public information designed to cultivate and maintain favorable attitudes toward the company.

Corporate officers and directors find themselves occupied to an increasing extent in this field. They devote much time to such things as the study of governmental developments of special concern to industry, and to various activities designed to keep them informed on current thinking by various groups of the public. They are asked to contribute more and more of their talents to community affairs. To find time for such outside activities, if the business is to achieve its full success, top executives must further delegate responsibilities for operating and planning.

#### Organization Planning

Finding adequate time and talent for the increasing demands upon top management compels it, first, to spend more time in organization. This may be called a conscious building of a community of people interested in the same objective -- the success of the company of which they are a part. The delegation of authority for action, responsibility for planning, and the establishment of adequate means of communication of objectives and coordination are the purposes of this organization planning.



A tool of organization planning which is being used more and more is decentralization. Decentralization can be practiced in various ways and degrees. It could include, for example, dividing the existing organization into many or additional subsidiaries. In essence, however, it means the delegation of all of the responsibility for the success for some part of the enterprise to a management team having the full confidence and support of the top corporate management. Central management can offer policy guidance and services to the decentralized phases, particularly in the fields of research and planning, which perhaps the decentralized group could not afford on its own. The central organization may include advisors in various special fields. These two trends -- the increasing occupation of top business management with the social and public needs of the business, and the tendency towards decentralization -- emphasize the need for the development of executives, well rounded with a knowledge of planning as well as of operation. It emphasizes the need for clarification of the function of planning and its delegation between line and staff organizations.

#### Organization of Planning

The function of planning -- if it is to be successful -- must be built from the bottom up and tuned to the policies which come from the top down. The integration of the various planning activities with operating activities at each level, and the transfer of the results of planning, should follow the organizational scheme. Third, it should include, close to top management, coordinating and advisory groups.

The first job of central coordinating groups is to see that the actions and plans for all areas of the business are reported to top management in such a way as to release management's time for other activities and yet provide a background and basis for their thinking about planning and decisions. This means analyzing and condensing operating and financial reports; analyzing plans for the future to point up the problems and decisions requires communication to top management of findings of studies in the fields of economics, scientific developments and other areas that have an important bearing on the future of the company; and, finally, reporting of all plans in a form which integrates them and shows the company's financial picture -- the financial plan.

It is taken for granted that when such reports reach top management they will represent teamwork. It is assumed that all have been consulted who should be, and that the reports embody the integrated thinking and conclusions of the whole company group.

The following discussion of the several parts of the planning job includes the work done by operators and specialists wherever located, the analyses by which it is checked economically and financially, and the reporting to the top. Allocation of responsibilities for the work is not discussed in detail since this would follow organizational lines and would be designed with due consideration of scope, etc. Finally, integration of the overall scheme into the financial plan is presented.

#### TECHNICAL PLANNING

Industrial planning for the development, conservation, and utilization of technical and scientific resources is a comprehensive job demanding a variety of talents -- scientific, managerial and analytical. It includes the conduct of scientific research to promote the growth of the company, the acquisition of patents, designs and other technical "know-how" and, frequently, the conduct of basic scientific research to add to the fund of knowledge from which the company draws. It includes harnessing of all

available technical research to promote and improve the efficiency of labor, to develop new products, and to promote the welfare of the company generally. It cannot be completely assigned to a technical organization, for it involves all levels of management.

Plans to promote effective utilization of scientific research include education through communication and discussion, and regular and continuing analyses and appraisals. In many companies the research and development budget is a principal means of clarifying the objectives of the company in the field of research. It facilitates the communication of ideas and their dissemination at executive levels. The principal applications of research and developments in technology of production find their fruit through the orderly procedures of analyses leading to capital budgeting -- and financing -- through financial planning. This chain reaction of planning, starting with technical research, is the key to industrial progress, and success in the integration of these phases of planning could be the basis of financial success.

At this stage of the business cycle new products and new processes assume great importance. New products about to come on the market are the result of technical research that may have started twenty years ago -- an activity that has been harnessed by intelligent management with management objectives and teamed up with capital. The resulting products are an effective demonstration of willingness on the part of management to assume a business risk.

However, even though these products are popular today and are selling at a price to yield a good profit, their success may be short-lived unless a substantial portion of the current profit is put into the research and development work from which the products were generated.

### ECONOMIC PLANNING

The phrase "economic planning" came into disrepute in the early '30's when it was associated with a variety of efforts to bring the U.S. out of an economic depression. As applied to corporate planning, the term has at least three connotations: (1) that the business be developed with due regard for the impact of exterior economic forces, (2) that plans be based on economic utilization of manpower, technique and capital, and (3) that management be alert to the impact of its own action on the economic scene, so that the company will contribute to rather than disturb the national economy.

### MARKET RESEARCH

The business must be developed with respect for the impact of economic forces which determine the need for its products. These include possible change in demands of consumers, the demand for capital goods, and, presently, the possibility of military purchases changing rapidly in quantity or form.

Long-range market research is the principal guide to economic planning. It has grown and has been aided by government services and privately supported research organizations. Market research, like technical research, must be tailored to meet the needs of a company. Frequently it may be found that while indices for total business are helpful guides in determining the course of a company, these must be supplemented by realistic studies based on contact with direct consumers. Measure of demand for a company's product beyond the current year involves some study of

the competition. The possibility of supply either exceeding or being insufficient to meet the demand upon an industry is the most essential point, for it will indicate whether price reductions are to be anticipated or if added capacity is to be desired.

The amazing postwar growth of markets for most commodities has caught many companies short, and just now capital expenditures are beginning to taper off as plants are completed and consumer demands for new regular lines are met. In most industries building additional capacity for old lines is decreasing, and emphasis is more on additions to meet newer demands developed through a consumer acceptance of new products or qualities, and on cost reduction facilities.

Evaluation of proposed capital expenditure on projects that will take three or four years for completion requires a projection of the particular demand for which the expenditure is intended. Building reasonably reliable organization, manpower and financial programs for the future requires a study of demand for all the products which the company would expect to sell. These combined needs have established a fairly general practice of estimating product needs three to five years ahead. These plans are as comprehensive as the scope of the company. Integration of all supply sources and markets, and the indication of the amount and location of additional supplies, is the principal objective.

### INTERNAL ECONOMIC RESEARCH

Internal economic research may be defined as the analysis of the various opportunities to meet the market demand, a complete statement of the problem in terms of raw material, operating and investment costs, and careful appraisal of all the differences in financial terms so as to hold the utilization of the basic forces and, therefore, the costs to a minimum. This involves analysis of both short and long-range alternatives, so as to make possible the correct choice. The reporting of these analyses should indicate the final impact which is likely to be made upon the company's financial situation by the change in cash position resulting from the acceptance of one program as compared to the other. The period covered should extend far enough ahead to afford a sound basis for judging the attractiveness of the proposal.

A method of reporting supply requirements that points up shortages and overages by products and by areas is the foundation for such economic research. The balance, or lack of balance, for several years ahead would be indicated by this report, which might be called the supply program.

Coordination of sales and production is primarily an operating responsibility, but the success achieved reflects the accuracy of the longer-range demand forecasts and the adequacy of longer-range plans for supply. The program or budget for the current year would usually be an extension of the longer-range program. It would indicate seasonal variations between supply and demand and the production required to meet these -- the inventory problem. The degree of variation in demand and the value of the product sales to the company establish the scope and frequency of program review. In localized areas such a review might take place weekly.

The third phase, testing the impact of the company's plans upon the whole economy, is beyond the scope of this article except for the brief references made to it earlier.

### MANPOWER AND MANAGEMENT

When the entire expenditures of American industry are lumped together and transfers of raw materials between companies are eliminated, it is shown that 65 per

cent of the total goes for compensation to employees. Clearly employee cost, including both current payments and commitments, is the largest item of operating expense. Management must plan ahead for selection, training and utilization of employees with the objective of compensation that is both adequate and commensurate with production.

In recent years there has been a growing realization of management's responsibility for the careful selection and planned development of personnel. This has focused increased attention upon training programs, with the objective of assuring the fullest development of the capacity of employees and the free flow of their ingenuity. Excellent results in improved productivity are reported as a result of training on the job at all levels.

The term "executive training" is a popular phrase at meetings of men interested in industrial planning. It is recognized that unless management perpetuates itself, the business cannot live. This type of planning can no more be completely centralized than can others. It must flow up rather than down, and be coordinated at the top.

Training can start only when the supervisor knows his employees and, through careful reporting, brings out the need of training. Training must reach then to lower and lower levels. First-line supervisors could become managers of the future.

A man of high integrity and ambition who has survived this selection process, has achieved some success as an administrator, and gets along well with people is ready for further tests as to his eligibility for executive training. A very important test is his knowledge of the company. Some companies try to provide that by exposing employees to various activities of the concern through brief orientation courses. However, working on the job has been found much more successful. Actual work in a central planning division, such as an economics department, budget department or financial analysis division, provides an opportunity for promising young men to obtain an overall perspective of the company that is unequalled. Here you have a merging of two important planning activities -- planning for executives of the future, and planning for the company.

Industrial management today must also give careful thought to employment needs several years ahead, taking account of the outlook of the business and the impact of capital expenditures for improvement in productivity, as well as of the human supply factors of life span and turnover. This planning is best conducted on a plant-by-plant and area basis, with coordination to develop inter-plant and area transfers. Such planning for three or four years ahead is a necessary basis for good budgeting.

The factor of employee cost in the operating budget for the year is the financial result of the many steps of employee planning -- the selection of many years before, the training, the technological improvements through capital expenditure, and the satisfaction of the employee with his compensation. It should reflect the intelligent application of available manpower to the current job. Analysis of consequent deviations from the budget will present a financial measure of the success of the day-by-day personal planning.

#### Financial Planning

Financial planning involves plans to increase the supply and plans to satisfy the demand for capital in the industrial enterprise. All plans leading to decisions and actions taken with the objective of improving the financial result could, in a sense, be included in the broad term "financial planning." It is, therefore, an activity in which many participate.

The financial plan of a company integrates all of the other planning activities. It brings out whether the principal objective of industrial planning, that of improved profits, is to be realized. It shows whether the required investments can be made from available funds or if new money is required. Prospective suppliers of capital want to see a financial plan.

With the report of the financial plan to top management, the complete job of planning is brought into focus. Some supplements will be required on the operating program, the economic outlook, capital expenditures, research and development plans.

The financial program will be reported through the chief financial officer. Following this channel does not mean that coordination is to be accomplished only at the top. The success of the whole planning effort and its acceptance by top executives depends to a large degree on the success of coordination between all levels and the communication, from the top down, of management objectives.

Coordination is facilitated by the preparation and discussion of financial plans for various segments of the business. In a decentralized organization, a complete financial program embodying the agreed plans of a particular segment and its review and approval by the management of that division, is an important aid to the effectiveness of decentralized management. In this way the responsibility for planning is placed in the hands of the management responsible for the success of the decentralized unit. Financial policy decisions of the top corporate management and the financing of programs are greatly facilitated by such area studies. Supplementary and background information indicating the long-run return on capital invested and analysis of the impact of economic trends and comprehensive factors in the area, contribute to the soundness of decisions regarding the proposed financial plans of such a unit.

The financial plan thus brings into focus all phases of management. It is a test of the organization's success in achieving coordination and communication. It requires, moreover, regular and fundamental review of major policy with respect to all important questions facing the company in its various operations.

#### Conclusion

It is hoped that this brief outline of planning will serve to forge, in the thinking of the reader, connections between long-range planning, decision, action, budgeting and control of current operations. Hopefully, it will emphasize the necessity of planning in all important areas of the business. It is suggested that the overall planning scheme be scrutinized to see if gaps exist, so that steps to close them may be considered. If it has been made clear that planning isn't everything, nor is budgeting, it should be evident also that planning and budgeting are not only important aids to management but important parts of the management process.

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